

City of Swartz Creek

Financial Report with Supplemental Information June 30, 2008

INTRODUCTORY SECTION

List of Elected and Appointed Officials

FINANCIAL SECTION

Report Letter 1-2

Management's Discussion and Analysis 3-6

Basic Financial Statements

Government-wide Financial Statements:

Statement of Net Assets 7

Statement of Activities 8

Fund Financial Statements:

Governmental Funds:

Balance Sheet 9

Reconciliation of the Balance Sheet to the Statement of Net Assets 10

Statement of Revenue, Expenditures, and Changes in Fund Balances 11

Reconciliation of the Statement of Revenue, Expenditures, and
Changes in Fund Balances of Governmental Funds to the Statement
of Activities 12

Proprietary Funds:

Statement of Net Assets 13

Statement of Revenue, Expenses, and Changes in Fund Net Assets 14

Statement of Cash Flows 15

Fiduciary Funds:

Statement of Agency Assets and Liabilities 16

Notes to Financial Statements 17-35

Required Supplemental Information

Budgetary Comparison Schedule - General Fund 36

Budgetary Comparison Schedule - Major Special Revenue Funds 37-39

Pension System Schedule of Funding Progress 40-41

Other Supplemental Information

Nonmajor governmental funds:	
Combining Balance Sheet	42
Combining Statement of Revenue, Expenditures, and Changes in Fund Balances	43
Agency funds:	
Combining Statement of Assets and Liabilities	44

Introductory Section

City of Swartz Creek

List of Elected and Appointed Officials

City Council

Richard Abrams	Mayor
Jason Christie	Mayor Pro-Tem
Donald Adams	Councilperson
C. David Hurt	Councilperson
Rae Lynn Hicks	Councilperson
Curtis Porath	Councilperson
Michael Shumaker	Councilperson

Other Officers and Officials

Paul Bueche	City Manager
Adam Zettel	Assistant City Manager
Mary Jo Clark	Finance Director
Tom Svrcek	Director of Public Services
Rick Clolinger	Police Chief
Tom O'Brien	Zoning Administrator
Deanna Korth	Treasurer
Juanita Aguilar	Clerk

Financial Section

Independent Auditor's Report

To the City Council
City of Swartz Creek

We have audited the accompanying financial statements of the governmental activities, the business type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Swartz Creek, as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Swartz Creek's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of Swartz Creek Area Senior Citizen's Inc., which represents 84 percent, 96 percent and 84 percent, respectively, of the assets, net assets and revenues of the discretely presented component units. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amount included in Swartz Creek Area Senior Citizen's, Inc. is based on the report of other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Swartz Creek, as of June 30, 2008 for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis, retirement system schedules of funding progress and the budgetary comparison schedules as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

To the City Council
City of Swartz Creek

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Swartz Creek's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Plante & Moran, PLLC

December 10, 2008

City of Swartz Creek

Management's Discussion and Analysis

Our discussion and analysis of the City of Swartz Creek's financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2008. Please read it in conjunction with the City's financial statements.

Financial Highlights

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the year ended June 30, 2008:

- The City's total net assets are \$15.8 million.
- The City's over-all unrestricted net assets are \$5.4 million
- General Fund revenues exceeded expenditures by \$109 thousand before transfers out. After transfers out, the net increase in fund balance was \$18 thousand leaving the General Fund with a fund balance of \$1,092,411.

Using this Annual Report

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the City's operations in more detail than the government-wide financial statements by providing information about the City's most significant funds. The fiduciary fund statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the government

City of Swartz Creek

Management's Discussion and Analysis (Continued)

The City as a Whole

The following table shows, in a condensed format, the net assets as of the current date and compared to the prior year (2007 numbers shown have been restated for the restatement detailed in Note 14):

Summary Condensed Statement of Net Assets

	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
Current assets	\$ 3,201,631	\$ 3,436,059	\$ 4,066,104	\$ 3,792,135	\$ 7,267,735	\$ 7,228,194
Capital assets	5,414,079	4,540,781	5,062,545	5,206,618	10,476,624	9,747,399
Total assets	8,615,710	7,976,840	9,128,649	8,998,753	17,744,359	16,975,593
Current liabilities	107,661	300,289	233,781	160,908	341,442	461,197
Long-term liabilities	894,021	812,938	744,824	769,724	1,638,845	1,582,662
Total liabilities	1,001,682	1,113,227	978,605	930,632	1,980,287	2,043,859
Net assets:						
Invested in capital assets, net of related debt	4,594,079	3,668,478	4,317,721	4,436,894	8,911,800	8,105,372
Restricted	1,476,082	1,799,679	-	-	1,476,082	1,799,679
Unrestricted	1,543,867	1,395,456	3,832,323	3,631,227	5,376,190	5,026,683
Total net assets	<u>\$ 7,614,028</u>	<u>\$ 6,863,613</u>	<u>\$ 8,150,044</u>	<u>\$ 8,068,121</u>	<u>\$ 15,764,072</u>	<u>\$ 14,931,734</u>

The governmental net assets increased 11 percent from a year ago - increasing from \$6.8 million to \$7.6 million. In contrast, last year's net assets increased by only 6.5 percent.

Governmental unrestricted net assets - the part of net assets that can be used to finance day-to-day operations - increased by \$148 thousand for the governmental activities. This represents an increase of approximately 11 percent. The current level of unrestricted net assets for our governmental activities stands at \$1.5 million, or about 50 percent of expenditures.

The net assets of business type activities increased 1 percent from a year ago - increasing from \$8.1 million to \$8.2 million. In contrast, last year's net assets increased by 3 percent.

City of Swartz Creek

Management's Discussion and Analysis (Continued)

Business-type unrestricted net assets - the part of net assets that can be used to finance day-to-day operations - increased by \$200 thousand. This represents an increase of approximately 6 percent. The current level of unrestricted net assets stands at \$3.8 million, or about 80 percent of expenditures.

Summary Condensed Income Statement

	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
Revenue						
Program revenue:						
Charges for services	\$ 404,564	\$ 418,579	\$ 1,906,531	\$ 1,854,479	\$ 2,311,095	\$ 2,273,058
Operating grants	349,932	361,330	-	-	349,932	361,330
Capital grants	562,080	59,137	18,250	-	580,330	59,137
General revenue:						
Property taxes	1,484,884	1,481,990	-	-	1,484,884	1,481,990
State-shared revenue	452,288	452,394	-	-	452,288	452,394
Investment earnings	155,043	219,772	128,061	158,377	283,104	378,149
Miscellaneous	182,014	216,159	-	-	182,014	216,159
Total revenue	3,590,805	3,209,361	2,052,842	2,012,856	5,643,647	5,222,217
Program Expenses						
Legislative	33,598	34,396	-	-	33,598	34,396
General government	619,503	699,813	-	-	619,503	699,813
Public safety	1,365,869	1,212,318	-	-	1,365,869	1,212,318
Public works	646,226	597,193	-	-	646,226	597,193
Recreation and cultural	162,609	253,270	-	-	162,609	253,270
Interest on long-term debt	40,085	47,911	36,961	-	77,046	47,911
Water	-	-	1,082,773	954,435	1,082,773	954,435
Sewer	-	-	823,685	755,239	823,685	755,239
Total expenses	2,867,890	2,844,901	1,943,419	1,709,674	4,811,309	4,554,575
Transfers	27,500	78,931	(27,500)	(78,931)	-	-
Change in Net Assets	\$ 750,415	\$ 443,391	\$ 81,923	\$ 224,251	\$ 832,338	\$ 667,642

The City's total governmental revenues increased by approximately \$381 thousand, despite decreases in interest and miscellaneous income. The increase, which represents 12 percent, was primarily due to the continuing increase in capital grants for road improvements. Expenses increased by only about \$23 thousand during the year.

The City's Funds

Our analysis of the City's major funds begins on page 9, following the government-wide financial statements. The fund financial statements provide detail information about the most significant funds, not the City as a whole. The City Council creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as special property tax millages. The City's major funds for 2008 include the General Fund, Major Streets Fund, Local Streets Fund and Garbage Fund.

The General Fund pays for most of the City's governmental services. The most significant are police and fire, which incurred expenses of approximately \$1.2 million in 2008.

City of Swartz Creek

Management's Discussion and Analysis (Continued)

General Fund Budgetary Highlights

Over the course of the year, the City amended the budget to take into account events during the year. City departments overall stayed below budget, resulting in total expenditures \$180 thousand below budget. This allowed the General Fund's fund balance to increase from \$1,074,264 a year ago to \$1,092,411 at June 30, 2008.

Capital Assets

At the end of 2008, the City had \$8.8 million invested in a broad range of capital assets, including land, buildings, equipment, and water and sewer lines. In addition, the City has invested significantly in roads within the City. Major additions included road work on several roads in the City. Additional information on the city's capital assets can be found in Note 5 of this report.

Debt Administration

At year-end the City had \$894 thousand and \$745 thousand in debt outstanding for governmental activities and business type activities, respectively. Additional information on the City's long-term debt can be found in Note 7 of this report.

Contacting the City's Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the Clerk's office at 8083 Civic Drive, Swartz Creek, Michigan 48473.

City of Swartz Creek

Statement of Net Assets June 30, 2008

	Primary Government			Downtown Development Authority	Senior Citizens Authority
	Governmental Activities	Business-Type Activities	Total		
Assets					
Cash and equivalents	\$ 2,229,811	\$ 2,988,212	\$ 5,218,023	\$ 77,358	\$ 362,750
Investments	625,000	526,000	1,151,000	-	-
Accounts receivable	40,564	511,203	551,767	-	891
Due from other governments	232,767	-	232,767	-	-
Due from component unit	60,000	-	60,000	-	-
Inventory	-	28,241	28,241	-	-
Prepaid items	13,489	12,448	25,937	-	1,321
Capital assets - not depreciated	2,282,438	-	2,282,438	-	-
Capital assets (net of accumulated depreciation)	3,131,641	5,062,545	8,194,186	-	33,372
Total assets	8,615,710	9,128,649	17,744,359	77,358	398,334
Liabilities					
Accounts payable	70,750	8,881	79,631	\$ 180	\$ -
Accrued liabilities	36,911	32,090	69,001	-	2,265
Deferred revenue	-	-	-	-	4,103
Due to other governments	-	191,310	191,310	-	-
Due to primary government	-	-	-	60,000	-
Deposits	-	1,500	1,500	-	-
Noncurrent liabilities:					
Due within one year	105,000	25,982	130,982	-	-
Due in more than one year	789,021	718,842	1,507,863	-	-
Total liabilities	1,001,682	978,605	1,980,287	60,180	6,368
Net assets					
Invested in capital assets, net of related debt	4,594,079	4,317,721	8,911,800	-	33,372
Restricted for:					
Streets	908,171	-	908,171	-	-
Garbage collection	561,199	-	561,199	-	-
Public safety	3,155	-	3,155	-	-
Debt service	3,557	-	3,557	-	-
Unrestricted	1,543,867	3,832,323	5,376,190	17,178	358,594
Total net assets	\$ 7,614,028	\$ 8,150,044	\$ 15,764,072	\$ 17,178	\$ 391,966

City of Swartz Creek

Statement of Activities Year Ended June 30, 2008

Functions\Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets				
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			Downtown Development Authority	Senior Citizens Authority
					Governmental Activities	Business-type Activities	Total		
Primary Government									
Governmental activities:									
Legislative	\$ 33,598	\$ -	\$ -	\$ -	\$ (33,598)	\$ -	\$ (33,598)	\$ -	\$ -
General government	619,503	97,314	-	-	(522,189)	-	(522,189)	-	-
Public safety	1,365,869	249,374	16,000	-	(1,100,495)	-	(1,100,495)	-	-
Public works	646,226	49,771	332,520	562,080	298,145	-	298,145	-	-
Recreation and cultural	162,609	8,105	1,412	-	(153,092)	-	(153,092)	-	-
Interest on long-term debt	40,085	-	-	-	(40,085)	(36,961)	(77,046)	-	-
Total governmental activities	2,867,890	404,564	349,932	562,080	(1,551,314)	(36,961)	(1,588,275)	-	-
Business-type activities:									
Water	1,082,773	1,073,762	-	10,750	-	1,739	1,739	-	-
Sewer	823,685	832,769	-	7,500	-	16,584	16,584	-	-
Total business-type activities	1,906,458	1,906,531	-	18,250	-	18,323	18,323	-	-
Total primary government	\$ 4,774,348	\$ 2,311,095	\$ 349,932	\$ 580,330	(1,551,314)	(18,638)	(1,569,952)	-	-
Component Units									
Downtown Development Authority	\$ 8,326	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (8,326)	\$ -
Senior Citizens Authority	244,761	75,828	177,619	11,771	-	-	-	-	20,457
General revenues:									
Property taxes					1,484,884	-	1,484,884	46,888	-
State shared revenues					452,288	-	452,288	-	-
Franchise fees					63,753	-	63,753	-	-
Miscellaneous					118,261	-	118,261	3,844	8,772
Unrestricted investment earnings					155,043	128,061	283,104	2,229	12,040
Transfers					27,500	(27,500)	-	-	-
Total general revenues and transfers					2,301,729	100,561	2,402,290	52,961	20,812
Change in net assets					750,415	81,923	832,338	44,635	41,269
Net Assets - Beginning as restated					6,863,613	8,068,121	14,931,734	(27,457)	350,697
Net Assets - Ending					\$ 7,614,028	\$ 8,150,044	\$ 15,764,072	\$ 17,178	\$ 391,966

The Notes to Financial Statements are an
Integral Part of this Statement

City of Swartz Creek

Governmental Funds Balance Sheet June 30, 2008

	General	Major Street	Local Street	Garbage Collection	Other Governmental Funds	Totals
Assets						
Cash and cash equivalents	\$ 629,571	\$ 386,519	\$ 231,252	\$ 508,211	\$ 201,196	\$ 1,956,749
Investments	250,000	250,000	-	75,000	-	575,000
Accounts receivable	7,859	15,545	-	366	16,794	40,564
Due from other governmental units	179,203	41,397	12,167	-	-	232,767
Due from component unit	60,000	-	-	-	-	60,000
Prepaid items	7,265	-	-	-	-	7,265
Total assets	\$ 1,133,898	\$ 693,461	\$ 243,419	\$ 583,577	\$ 217,990	\$ 2,872,345
Liabilities						
Accounts payable	\$ 17,948	\$ 25,978	\$ 547	\$ 21,331	\$ 156	\$ 65,960
Accrued and other liabilities	23,539	1,256	928	1,047	2,023	28,793
Total liabilities	41,487	27,234	1,475	22,378	2,179	94,753
Fund Balances						
Reserved for prepaid items	7,265	-	-	-	-	7,265
Unreserved , reported in						
General Fund	1,085,146	-	-	-	-	1,085,146
Special revenue funds	-	666,227	241,944	561,199	24,020	1,493,390
Debt service funds	-	-	-	-	3,557	3,557
Capital project funds	-	-	-	-	188,234	188,234
Total fund balances	1,092,411	666,227	241,944	561,199	215,811	2,777,592
Total liabilities and fund balances	\$ 1,133,898	\$ 693,461	\$ 243,419	\$ 583,577	\$ 217,990	\$ 2,872,345

City of Swartz Creek

Governmental Funds Reconciliation of the Balance Sheet to the Statement of Net Assets Year Ended June 30, 2008

Fund balances reported in governmental funds	\$ 2,777,592
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and are not reported in the funds	5,182,612
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Long term liabilities are not due and payable in the current period and therefore, are not reported in the funds:	
Long term note notes payable	(894,021)
Accrued interest on long term notes payable	(7,188)

Internal Service Funds are included as part of governmental activities	<u>555,033</u>
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Net assets of governmental activities	<u><u>\$ 7,614,028</u></u>
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City of Swartz Creek

Governmental Funds

Statement of Revenue, Expenditures, and Changes in Fund Balances

Year Ended June 30, 2008

	General	Major Street	Local Street	Garbage Collection	Other Governmental Funds	Totals
Revenue						
Property taxes	\$ 1,077,096	\$ -	\$ -	\$ 379,430	\$ 28,358	\$ 1,484,884
Licenses and permits	139,064	-	-	-	-	139,064
Intergovernmental:						
State	455,385	258,269	74,251	-	-	787,905
Local	8,500	-	-	-	-	8,500
Charges for services	185,354	21,645	-	-	-	206,999
Fines and forfeits	54,285	-	-	-	48,645	102,930
Interest	76,228	22,621	8,409	27,093	9,232	143,583
Other	158,208	2,125	16,875	366	21,954	199,528
Total revenue	<u>2,154,120</u>	<u>304,660</u>	<u>99,535</u>	<u>406,889</u>	<u>108,189</u>	<u>3,073,393</u>
Expenditures						
Current:						
Legislative	33,598	-	-	-	-	33,598
General government	567,213	-	-	-	15,608	582,821
Public safety	1,215,077	-	-	-	121,653	1,336,730
Public works	100,115	370,545	97,728	462,758	-	1,031,146
Recreation and cultural	129,098	-	-	-	-	129,098
Debt service:						
Principal payments	-	-	-	-	52,303	52,303
Interest and paying agent fees	-	-	-	-	45,882	45,882
Total expenditures	<u>2,045,101</u>	<u>370,545</u>	<u>97,728</u>	<u>462,758</u>	<u>235,446</u>	<u>3,211,578</u>
Excess of revenue over (under) expenditures	<u>109,019</u>	<u>(65,885)</u>	<u>1,807</u>	<u>(55,869)</u>	<u>(127,257)</u>	<u>(138,185)</u>
Other Financing Sources (Uses)						
Transfers in	-	-	25,000	-	132,122	157,122
Transfers out	<u>(90,872)</u>	<u>(25,000)</u>	<u>-</u>	<u>(13,750)</u>	<u>-</u>	<u>(129,622)</u>
Total other financing sources (uses)	<u>(90,872)</u>	<u>(25,000)</u>	<u>25,000</u>	<u>(13,750)</u>	<u>132,122</u>	<u>27,500</u>
Net change in fund balances	18,147	(90,885)	26,807	(69,619)	4,865	(110,685)
Fund Balance - Beginning of year	<u>1,074,264</u>	<u>757,112</u>	<u>215,137</u>	<u>630,818</u>	<u>210,946</u>	<u>2,888,277</u>
Fund Balance - End of year	<u>\$ 1,092,411</u>	<u>\$ 666,227</u>	<u>\$ 241,944</u>	<u>\$ 561,199</u>	<u>\$ 215,811</u>	<u>\$ 2,777,592</u>

City of Swartz Creek

Governmental Funds **Reconciliation of the Statement of Revenue, Expenditures,** **and Changes in Fund Balances of Governmental Funds** **to the Statement of Activities** **Year Ended June 30, 2008**

Net Change in Fund Balances - Total Governmental Funds	\$ (110,685)
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives as depreciation:

Capital outlay	1,032,234
Depreciation expense	(147,057)
Net book value of assets disposed of	(9,530)

Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	52,303
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Decrease in accrued interest payable on long term debt	5,797
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Revenues are recorded in the statement of activities when earned; they are not reported in the funds until collected or collectible within 60 days of year end	(56,128)
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Decrease in accumulated employee sick and vacation pay and other similar expenses reported in the statement of activities do not require use of current resources, and therefore are not reported in the fund statements until they come due for payment	23,768
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Internal Service Funds are also included as governmental activities	(40,287)
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Change in Net Assets of Governmental Activities	\$ 750,415
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City of Swartz Creek

Proprietary Funds Statement of Net Assets June 30, 2008

	Enterprise Funds		Total Enterprise Funds	Internal Service Motor Pool Fund
	Water	Sewer		
Assets				
Current assets:				
Cash and cash equivalents	\$ 1,896,939	\$ 1,091,273	\$ 2,988,212	\$ 273,062
Investments	301,000	225,000	526,000	50,000
Accounts receivable	288,961	222,242	511,203	-
Prepays	6,224	6,224	12,448	6,224
Inventories	28,241	-	28,241	-
Total current assets	2,521,365	1,544,739	4,066,104	329,286
Property and equipment - Net	2,437,307	2,625,238	5,062,545	231,467
Total assets	4,958,672	4,169,977	9,128,649	560,753
Liabilities				
Current liabilities:				
Accounts payable	7,161	1,720	8,881	4,790
Accrued liabilities	13,128	8,472	21,600	930
Accrued interest payable	-	10,490	10,490	-
Deposits	1,500	-	1,500	-
Current portion of long-term debt	-	25,982	25,982	-
Due to other governmental units	116,048	75,262	191,310	-
Total current liabilities	137,837	121,926	259,763	5,720
Long-term debt-net of current portion	-	718,842	718,842	-
Net Assets				
Invested in capital assets - Net of related debt	2,437,307	1,880,414	4,317,721	231,467
Unrestricted	2,383,528	1,448,795	3,832,323	323,566
Total net assets	\$ 4,820,835	\$ 3,329,209	\$ 8,150,044	\$ 555,033

City of Swartz Creek

Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Assets Year Ended June 30, 2008

	Enterprise Funds		Total Enterprise Funds	Internal Service Motor Pool Funds
	Water	Sewer		
Operating Revenue				
Charges for services	\$ 1,053,964	\$ 819,435	\$ 1,873,399	\$ -
Penalties	19,798	13,334	33,132	-
Equipment rental	-	-	-	159,017
Total operating revenue	1,073,762	832,769	1,906,531	159,017
Operating Expenses				
Water operating	935,703	-	935,703	-
Meter reading and billings	69,193	28,692	97,885	-
Sewer operating	-	714,020	714,020	-
Sewer lift station operation	-	14,776	14,776	-
Motor pool operations	-	-	-	142,262
Depreciation	77,877	66,197	144,074	70,787
Total operating expenses	1,082,773	823,685	1,906,458	213,049
Net operating income (loss)	(9,011)	9,084	73	(54,032)
Nonoperating Revenue (Expenses)				
Interest expense	-	(36,961)	(36,961)	-
Other income	-	-	-	2,285
Interest income	76,386	51,675	128,061	11,460
Total nonoperating revenue	76,386	14,714	91,100	13,745
Income (loss) - Before contributions	67,375	23,798	91,173	(40,287)
Capital contributions	10,750	7,500	18,250	-
Transfers out	(13,750)	(13,750)	(27,500)	-
Change in net assets	64,375	17,548	81,923	(40,287)
Net Asset - Beginning of year	4,756,460	3,311,661	8,068,121	595,320
Net Assets - End of year	\$ 4,820,835	\$ 3,329,209	\$ 8,150,044	\$ 555,033

City of Swartz Creek

Proprietary Funds Statement of Cash Flows Year Ended June 30, 2008

	Enterprise Funds			Internal Service Motor Pool Fund
	Water	Sewer	Total	
Cash Flows from Operating Activities				
Cash receipts from customers	\$ 1,081,201	\$ 835,350	\$ 1,916,551	\$ -
Cash receipts from interfund services provided	-	-	-	159,017
Cash payments to suppliers	(795,172)	(646,103)	(1,441,275)	(98,974)
Cash payments to employees	(135,809)	(103,285)	(239,094)	(20,167)
Net cash provided by operating activities	150,220	85,962	236,182	39,876
Cash Flows from Noncapital Financing Activities				
Transfers to other funds	(13,750)	(13,750)	(27,500)	-
Cash Flows from Capital and Related Financing Activities				
Proceeds from sale of capital assets	-	-	-	2,055
Interest paid on debt	-	(26,471)	(26,471)	-
Acquisition of capital assets	-	-	-	(68,208)
Principal payments on debt	-	(24,900)	(24,900)	-
Tap in revenue	10,750	7,500	18,250	-
Net cash provided by (used in) capital and related related financing activities	10,750	(43,871)	(33,121)	(66,153)
Cash Flows from Investing Activities				
Purchase of investments	(301,000)	(225,000)	(526,000)	(50,000)
Interest earned	76,386	51,675	128,061	11,460
Net cash used in investing activities	(224,614)	(173,325)	(397,939)	(38,540)
Net increase decrease in cash and cash equivalents	(77,394)	(144,984)	(222,378)	(64,817)
Cash and Cash Equivalents - Beginning of year	1,974,333	1,236,257	3,210,590	337,879
Cash and Cash Equivalents - End of year	\$ 1,896,939	\$ 1,091,273	\$ 2,988,212	\$ 273,062
Reconciliation of Operating Income to Net Cash Provided by Operating Activities				
Operating income	\$ (9,011)	\$ 9,084	\$ 73	\$ (54,032)
Adjustments to reconcile operating income to net cash provided by operating activities -				
Depreciation	77,877	66,197	144,074	70,787
Changes in operating assets and liabilities:				
Accounts receivable	5,940	2,581	8,521	-
Prepays	9,193	11,939	21,132	22,251
Accounts payable	56,420	(9,008)	47,412	419
Deposits	150	-	150	-
Accrued liabilities	9,651	5,169	14,820	451
Net cash provided by operating activities	\$ 150,220	\$ 85,962	\$ 236,182	\$ 39,876

City of Swartz Creek

Fiduciary Funds **Statement of Agency Assets and Liabilities** **June 30, 2008**

Assets

Cash and cash equivalents	\$ 70,152
Delinquent taxes	<u>378,024</u>
Total assets	<u><u>\$ 448,176</u></u>

Liabilities

Due to other governmental units	\$ 402,971
Deposits payable	<u>45,205</u>
Total liabilities	<u><u>\$ 448,176</u></u>

CITY OF SWARTZ CREEK

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2008

Note I - Summary of Significant Accounting Policies

The accounting policies of the City of Swartz Creek (the "City") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the City of Swartz Creek.

Reporting Entity

The City of Swartz Creek (City) was incorporated in 1959, under the provision of Act 279, P.A. 1909, as amended (Home Rule City Act). The City operates a Council-Manager form of government and provides the following services as authorized by its charter; public safety (police and fire), highways and streets, sanitation, community development, culture-recreation, public improvements, planning and zoning, water supply and sewage disposal systems, and general administrative services.

The accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Although blended component units are legal separate entities, in substance, they are part of the City's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the City (see discussion below for description).

Blended Component Unit - For financial reporting purposes, City of Swartz Creek Building Authority has been reported as if it were a part of the City's operations because:

- City pledged its full faith and credit as a guarantee for the Authority's outstanding debt
- City is obligated to fund deficits of the Authority

Discretely Presented Component Units -

Swartz Creek Area Senior Citizen's, Inc. - The City controls the property tax levy that funds the Seniors Citizen's, Inc., therefore, the Senior Citizen's, Inc. is fiscally dependent on the City. Complete financial reports can be obtained at their administrative offices at 8095 Civic Drive, Swartz Creek, Michigan 48473.

Swartz Creek Downtown Development Authority (Authority) - The Authority was established in accordance with State law to promote and rehabilitate the downtown area. State law provides for a specific tax levy for the operations of the Authority. The City appoints the Board and has to approve the annual budget and the issuance of any debt. Any surplus funds remaining at the termination of the Authority vest to the City.

Note I - Summary of Significant Accounting Policies (Continued)

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual Enterprise Funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund, fiduciary fund and component unit financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Note I - Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The following major revenue sources meet the availability criterion: state-shared revenue, state gas and weight tax revenue, district court fines, and interest associated with the current fiscal period. Conversely, special assessments and federal grant reimbursements will be collected after the period of availability; receivables have been recorded for these, along with a “deferred revenue” liability.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

The City reports the following major governmental funds:

The General Fund is the City’s primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Major and Local Streets Funds account for the City’s share of proceeds from gas and weight tax levied by the State and distributed to local governmental units. State law requires that these taxes be used for street maintenance and construction.

The Garbage Collection Fund accounts for a special property tax millage allowed to provide garbage and compost collection services.

The City reports the following major proprietary funds:

The Water Fund accounts for the operations of the water distribution system.

The Sewer Fund accounts for the operations of the sewage pumping and collection system.

Note I - Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

Additionally, the City reports the following internal service and fiduciary activities:

Internal service funds account for services provided to other departments of the government on a cost reimbursement basis. The City has a motor pool internal service fund.

The agency funds account for assets held by the City in a trustee capacity. Agency funds are custodial in nature (assets equal liabilities and do not involve the measurement of results of operations).

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The City has elected not to follow private sector standards issued after November 30, 1989 for its business-type activities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's water and sewer function and various other functions of the City. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, the City's policy is to first apply restricted resources.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relates to charges to customers for sales and services. The Water and Sewer Fund also recognizes the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Note I - Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

Property tax revenue

Property taxes are levied on each July 1 on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on March 1 of the following year, at which time penalties and interest are assessed.

The City's 2008 tax is levied and collectible on July 1, 2007, and is recognized as revenue in the year ended June 30, 2008, when the proceeds of the levy are budgeted and available for the financing of operations.

The 2007 taxable valuation of the City totaled \$218.9 million (a portion of which is captured by the DDA), on which taxes levied consisted of 4.829 mills for operating purposes, 1.75 mills for garbage collection, and .1280 mills for debt service. This resulted in \$1.0 million for operating, \$379 thousand for garbage collection, and \$28 thousand for debt service.

Assets, Liabilities, and Net Assets or Equity

Bank Deposits and Investments - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

All trade and property tax receivables are shown as net of allowance for uncollectible amounts.

Inventories and Prepaid Items - Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Inventory consists of expendable supplies for consumption. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Note I - Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

Assets, Liabilities, and Net Assets or Equity (Continued)

Capital Assets - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Roads	15 to 25 years
Water and sewer systems	50 to 75 years
Land improvements	20 year
Buildings	50 years
Machinery and equipment	3 to 20 years

Compensated Absences (Vacation and Sick Leave) – In accordance with contracts negotiated with the various employee groups of the City, individual employees have a vested right upon termination of employment to receive payment for unused vacation and sick leave under formulas and conditions specified in the contracts. All vacation pay is accrued annually in the government-wide and proprietary fund financial statements.

Note I - Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

Assets, Liabilities, and Net Assets or Equity (Continued)

Long-term Obligations - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Note 2 - Stewardship, Compliance, and Accountability

Construction Code Fees - The City oversees building construction, in accordance with the state's construction code act, including inspection of building construction and renovation to ensure compliance with the building codes. The City charges fees for these services. The law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs.

Shortfall at July 1, 2007	\$ (2,916)
Current year building permit revenue	#N/A
Related expenses:	
Direct costs	#N/A
Expenditures over revenue	#N/A
Cumulative shortfall at June 30, 2008	#N/A

Note 3 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended), authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The City has designated eight banks for the deposit of its funds. The investment policy adopted by the Board in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government and bank accounts and CDs, but not the remainder of State statutory authority as listed above. The City of Swartz Creek's deposits and investment policies are in accordance with statutory authority.

Note 3 - Deposits and Investments (Continued)

The City's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial credit risk of bank deposits:

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The government does not have a deposit policy for custodial credit risk. At year end, the City had \$664,990 of bank deposits (certificates of deposit, checking and savings accounts) that were uninsured and uncollateralized. The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the City evaluates each financial institution it deposits funds with and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Custodial credit risk of investments:

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City's does not have a policy for custodial credit risk. At year end, \$6,644,517 of investment securities were uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the City's name.

Credit risk

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The City has no investment policy that would further limit its investment choices. As of year end, the credit quality ratings of debt securities (other than the U. S. government) are as follows:

<u>Investment</u>	<u>Fair Value</u>	<u>Rating</u>	<u>Rating Organization</u>
MBIA Michigan Class Pool	\$1,692,122	AAA	Fitch
Chase Money Market Sweep	3,487,405	Not rated	N/A

City of Swartz Creek

Notes to Financial Statements June 30, 2008

Note 4 - Receivables

Receivables as of year end for the City's individual major funds and the nonmajor, Internal Service, and fiduciary funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	<u>General Fund</u>	<u>Major Streets Fund</u>	<u>Local Streets Fund</u>	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Nonmajor and Other Funds</u>	<u>Total</u>
Receivables:							
Accounts	\$ 7,859	\$15,545	\$ 366	\$288,961	\$222,242	\$ 16,794	\$551,767
Intergovernmental	179,203	41,397	12,167	-	-	-	232,767
Less allowance for uncollectibles	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net receivables	<u>\$187,062</u>	<u>\$56,942</u>	<u>\$12,533</u>	<u>\$288,961</u>	<u>\$222,242</u>	<u>\$ 16,794</u>	<u>\$784,534</u>

City of Swartz Creek

Notes to Financial Statements June 30, 2008

Note 5 - Capital Assets

Governmental Activities:

	Balance July 1, <u>2007</u>	<u>Reclassifications</u>	<u>Additions</u>	<u>Disposals</u>	Balance June 30, <u>2008</u>
Capital assets not being depreciated:					
Land	\$1,587,437	\$ (87,241)	\$ -	\$ -	\$1,500,196
Construction in progress	<u>516,668</u>	<u>(516,668)</u>	<u>782,242</u>	<u>-</u>	<u>782,242</u>
Subtotal	<u>2,104,105</u>	<u>(603,909)</u>	<u>782,242</u>	<u>-</u>	<u>2,282,438</u>
Capital assets being depreciated:					
Buildings	2,263,175	87,241	-	-	2,350,416
Land improvements	534,023	-	-	-	534,023
Machinery and equipment	1,542,860	-	253,748	(121,466)	1,675,142
Infrastructure	<u>1,033,887</u>	<u>(276,873)</u>	<u>64,452</u>	<u>-</u>	<u>821,466</u>
Subtotal	<u>5,373,945</u>	<u>(189,632)</u>	<u>318,200</u>	<u>(121,466)</u>	<u>5,381,047</u>
Accumulated depreciation:					
Buildings	(764,476)	-	(46,928)	-	(811,404)
Land improvements	(335,341)	-	(11,434)	-	(346,775)
Machinery and equipment	(1,035,874)	-	(107,985)	112,166	(1,031,693)
Infrastructure	<u>(8,037)</u>	<u>-</u>	<u>(51,497)</u>	<u>-</u>	<u>(59,534)</u>
Subtotal	<u>(2,143,728)</u>	<u>-</u>	<u>(217,844)</u>	<u>112,166</u>	<u>(2,249,406)</u>
Net capital assets being depreciated	<u>3,230,217</u>	<u>(189,632)</u>	<u>100,356</u>	<u>(9,300)</u>	<u>3,131,641</u>
Net capital assets	<u>\$5,334,322</u>	<u>\$ (793,541)</u>	<u>\$882,598</u>	<u>\$ (9,300)</u>	<u>\$5,414,079</u>

City of Swartz Creek

Notes to Financial Statements June 30, 2008

Note 5 - Capital Assets (Continued)

Business-type Activities:

	Balance July 1, <u>2007</u>	<u>Reclassifications</u>	<u>Additions</u>	<u>Disposals and Adjustments</u>	Balance June 30, <u>2008</u>
Capital assets being depreciated:					
Water and sewer systems	\$7,802,023	\$ 793,541	\$ -	\$ -	\$8,595,564
Machinery and equipment	<u>101,066</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>101,066</u>
Subtotal	<u>7,903,089</u>	<u>793,541</u>	<u>-</u>	<u>-</u>	<u>8,696,630</u>
Accumulated depreciation:					
Water and sewer systems	(3,414,467)	-	(137,219)	-	(3,551,686)
Machinery and equipment	<u>(75,544)</u>	<u>-</u>	<u>(6,855)</u>	<u>-</u>	<u>(82,399)</u>
Subtotal	<u>(3,490,011)</u>	<u>-</u>	<u>(144,074)</u>	<u>-</u>	<u>(3,634,085)</u>
Net capital assets being depreciated	<u>4,413,076</u>	<u>793,541</u>	<u>(144,074)</u>	<u>-</u>	<u>5,062,545</u>
Net capital assets	<u>\$4,413,076</u>	<u>\$ 793,541</u>	<u>\$(144,074)</u>	<u>\$ -</u>	<u>\$5,062,545</u>

City of Swartz Creek

Notes to Financial Statements June 30, 2008

Note 5 - Capital Assets (Continued)

Discretely presented component units capital asset activity:

Activity for the Swartz Creek Area Senior Citizen's Inc. for the year ended June 30, 2008, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending Balance</u>
Governmental activities:				
Capital assets, being depreciated:				
Equipment	\$ 44,955	\$ 26,634	\$ -	\$ 71,589
Less accumulated depreciation for:				
Equipment	25,862	12,355	-	38,217
Total capital assets, being depreciated, net	<u>\$ 19,093</u>	<u>\$ 14,279</u>	<u>\$ -</u>	<u>\$ 33,372</u>

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities	
General government	\$ 43,611
Public safety	14,771
Public works	55,164
Recreation and culture	33,511
Internal Service Fund depreciation is charged to the various functions based on their usage of the asset	<u>70,787</u>
Total governmental activities	<u>\$217,844</u>
Business-type activities:	
Water	\$ 77,877
Sewer	<u>66,197</u>
Total business-type activities	<u>\$144,074</u>

City of Swartz Creek

Notes to Financial Statements June 30, 2008

Note 6 - Interfund Transfers

Interfund transfers reported in the fund financial statements are comprised of the following:

<u>Fund Providing Resources</u>	<u>Fund Receiving Resources</u>	<u>Amount</u>
General Fund	Fire Capital Project Fund	\$ 20,000
General Fund	City Hall Debt Service Fund	13,750
General Fund	Drug Enforcement Fund	57,122
Major Streets Fund	Local Streets Fund	25,000
Garbage Fund	City Hall Debt Service Fund	13,750
Water Fund	City Hall Debt Service Fund	13,750
Sewer Fund	City Hall Debt Service Fund	<u>13,750</u>
Total		<u>\$157,122</u>

The transfer from the Major Streets Fund to the Local Streets Fund represents the sharing of gas and weight tax revenues, in accordance with Act 51; the transfers from the General, Garbage, Sewer and Water Funds represent the movement of resources to be used to service debt. The transfer from the General Fund to the Drug Enforcement Fund represents the movement of Forfeiture Funds.

Note 7 - Long-term Debt

The City issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the City. County contractual agreements and installment purchase agreements are also general obligations of the government.

The City has the following long term debt outstanding as of June 30, 2008:

<u>Description</u>	<u>Amount</u>
Governmental Activities	
<u>General Obligations:</u>	
2001 Building Authority Bond, used to renovate city hall, bearing interest from 4.25% to 5.65%, maturing in 2021	<u>\$ 820,000</u>
Business-type Activities	
<u>General Obligations:</u>	
2006 Genesee County Sewer Extension Bonds, bearing interest from 4% to 4.35%, maturing 2026	<u>\$ 744,824</u>

City of Swartz Creek

Notes to Financial Statements June 30, 2008

Note 7 - Long-term Debt (Continued)

Long-term debt activity can be summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities					
General obligations	\$ 872,303	\$ -	\$ (52,303)	\$ 820,000	\$ 50,000
Accumulated sick and vacation	97,789	48,232	(72,000)	74,021	55,000
Total governmental activities	<u>\$ 970,092</u>	<u>\$ 48,232</u>	<u>\$ (124,303)</u>	<u>\$ 894,021</u>	<u>\$ 105,000</u>
Business-type Activities					
General obligations	<u>\$ 769,724</u>	<u>\$ -</u>	<u>\$ (24,900)</u>	<u>\$ 744,824</u>	<u>\$ 25,982</u>

Annual debt service requirements to maturity for the above obligations are as follows:

	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2009	\$ 50,000	\$ 43,130	\$ 93,130	\$ 25,982	\$ 30,754	\$ 56,736
2010	50,000	40,756	90,756	27,065	29,714	56,779
2011	50,000	38,380	88,380	29,230	28,632	57,862
2012	50,000	35,980	85,980	30,313	27,462	57,775
2013	50,000	33,530	83,530	31,395	26,250	57,645
2014-2018	325,000	125,152	450,152	186,206	110,810	297,016
2019-2023	245,000	28,666	273,666	239,253	69,138	308,391
2024-2026	-	-	-	175,380	15,514	190,894
Total	<u>\$ 820,000</u>	<u>\$ 345,594</u>	<u>\$ 1,165,594</u>	<u>\$ 744,824</u>	<u>\$ 338,274</u>	<u>\$ 1,083,098</u>

Note 8 - Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City participates in a public entity risk pool that assumes the risk of loss for these claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The City participates in the Michigan Municipal Workers' Compensation Self-Insurer's Fund administered by the Michigan Municipal League. The Fund provides coverage for workers' compensation claims subject to a maximum limit of \$500,000 per occurrence.

Note 9 - Join Venture Agreement

The Swartz Creek Area Fire Board (Fire Board) has been organized as a joint venture of the City of Swartz Creek and Township of Clayton (Township). The organization agreement provides for a joint exercise of power and the establishment of a separate administrative entity. Members of the Fire Board are appointed by the City and Township. The participating units provide revenue to the Fire Board on the basis of fire runs and general contributions. The City and Township has provided the Fire Board with the use of several vehicles and real property. Title to these vehicles remain with the contributing unit of governments.

During the year ended June 30, 2008, the City was billed \$50,655 for fire runs by the Authority. The City contributed and additional \$108,968 towards operating costs. At year end the City owed \$3,265 to the Authority for fire run services.

The City is unaware of any circumstances that would cause an additional benefit or burden to the participating governments in the near future.

Audited financial statements are available for public inspection at the Fire Board headquarters.

NOTE 10 - Defined Benefit Pension Plan

Plan description. The City participates in the Michigan Municipal Employees Retirement System, an agent multiple-employer defined benefit pension plan that covers all employees of the City. The system provides retirement, disability and death benefits to plan members and their beneficiaries. The Michigan Municipal Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the System at 1134 Municipal Way., Lansing, MI 48917.

Funding policy. City employees are required to contribute to the plan at the following rates: general employees - 2.00 percent, police - 2.5 percent, supervisors - 4 percent.

Annual pension cost. For year ended June 30, 2008 the City's annual pension cost of \$223,645 for the plan was equal to the City's required and actual contribution. The pension cost for the three most recent years is as follows:

	Fiscal year ended June 30:		
	<u>2006</u>	<u>2007</u>	<u>2008</u>
Annual pension cost	\$121,082	\$161,405	\$223,645
Percentage of APC contributed	100%	100%	100%
Net pension obligation	\$ -	\$ -	\$ -

NOTE 10 - Defined Benefit Pension Plan (Continued)

Funded status and funding progress:

	Actuarial Valuation as of December 31:		
	<u>2005</u>	<u>2006</u>	<u>2007</u>
Actuarial value of assets	\$6,813,379	\$7,146,449	\$7,493,467
Actuarial Accrued Liability (entry age)	7,576,107	8,013,556	8,092,795
Unfunded AAL	762,728	867,107	599,328
Funded ratio	90%	89%	93%
Covered payroll	\$799,468	\$746,497	\$711,356
UAAL as a percentage of covered payroll	95%	116%	84%

Actuarial methods and assumptions. In the December 31, 2007 actuarial valuation (the most recent actuarial valuation) the entry age actuarial cost method was used. Significant actuarial assumptions used include (a) a 8.0 investment rate of return, (b) projected salary increases of 4.5 percent per year compounded annually, attributable to inflation, and (c) additional projected salary increases of 0.0% to 8.40% per year depending on age, attributable to seniority/merit. The assumptions did not include postretirement benefit increases. The actuarial value of assets was determined using techniques that smooth the effects of short term volatility over a ten year period. The City's unfunded actuarial accrued liability is being amortized as a level percentage of payroll contributions, using a prospective gradual reduction of the amortization period for open divisions from 30 years to 25 years.

Note 12 - Defined Contribution Pension Plan

The City has adopted by ordinance, a defined contribution money purchase pension plan administered by MERS and the ICMA Retirement Corporation. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. The plan is for all full time supervisors and employees represented by AFSCME hired after July 1, 1997. Employees hired prior to that date that do not participate in the defined benefit plan (MERS) may also participate in the defined contribution plan. The City contributes 7 percent of supervisors' wages and 5% of AFSCME employee's annual compensation. No employee contributions are required, but voluntary contributions can be made by the participants in accordance with IRS regulations. Participants vest in the employer contribution at the rate of 20% for each year of employment, becoming fully vested after five years. Contribution requirements and plan provisions are established and may be amended by the City Council.

Note 12 - Defined Contribution Pension Plan (Continued)

The City's total payroll during the current year was \$1,038,836. The current year contribution was calculated based on covered payroll of \$396,341, resulting in an employer contribution of \$25,336.

Note 13 - Other Postemployment Benefits

The City has elected to provide postemployment health benefits to retired employees with twenty-five (25) years of service in the MERS retirement plan. The government pays a maximum coverage of \$446/month per retiree for these benefits. Currently, six retirees are eligible for postemployment health benefits. For the fiscal year ended June 30, 2008, the City made payments for postemployment health benefit premiums of \$24,977. The government obtains health care coverage through private insurers.

Upcoming reporting change: The Governmental Accounting Standards Board has recently released Statement Number 45, Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The new rules will cause the government wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ended June 30, 2010.

Note 14 - Prior Period Restatement

During the year ended June 30, 2008, a net restatement in the amount of \$23,817 was necessary to properly account for capital assets and long-term debt in the Sewer Enterprise Fund. These adjustments were necessary because at June 30, 2007 the debt activity was recorded in the Sewer G.O. Bond Series 2006 debt service fund, whereas the activity should have been accounted for in the Sewer Fund.

	Sewer Fund	Business-type Activities	Governmental Activities
Beginning net assets, as previously reported			
Invested in capital assets, net of debt	\$1,897,894	\$4,413,077	\$3,692,295
Restricted	-	-	1,799,679
Unrestricted	1,389,950	3,631,227	1,395,456
Adjustment for capital assets related to the Sewer extension	793,541	793,541	(793,541)
Adjustment for long-term debt related to sewer extension	(769,724)	(769,724)	769,724
Net assets, as restated	<u>\$3,311,661</u>	<u>\$8,068,121</u>	<u>\$6,863,613</u>
Beginning net assets, as restated:			
Invested in capital assets, net of debt	\$1,921,711	\$4,436,894	\$3,668,478
Restricted	-	-	1,799,679
Unrestricted	1,389,950	3,631,227	1,395,456
	<u>\$3,311,661</u>	<u>\$8,068,121</u>	<u>\$6,863,613</u>

Required Supplemental Information

City of Swartz Creek

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2008

	General Fund			
	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenue				
Property taxes	\$ 1,114,393	\$ 1,114,393	\$ 1,077,096	\$ (37,297)
Licenses and permits	140,145	140,145	139,064	(1,081)
Intergovernmental - State	415,038	415,038	455,385	40,347
Intergovernmental - Local	-	-	8,500	8,500
Charges for services	237,516	237,516	185,354	(52,162)
Fines and fees	51,500	51,500	54,285	2,785
Interest	83,000	83,000	76,228	(6,772)
Other	131,570	146,570	158,208	11,638
Total revenue	2,173,162	2,188,162	2,154,120	(34,042)
Expenditures				
Legislative	39,134	42,204	33,598	8,606
General government	600,366	604,999	567,213	37,786
Public safety	1,238,474	1,327,397	1,215,077	112,320
Public works	98,075	105,012	100,115	4,897
Recreation and cultural	142,912	145,872	129,098	16,774
Total expenditures	2,118,961	2,225,484	2,045,101	180,383
Excess of revenue over (under) expenditures	54,201	(37,322)	109,019	146,341
Other Financing Uses				
Transfers out	(90,872)	(90,872)	(90,872)	-
Total other financing uses	(90,872)	(90,872)	(90,872)	-
Net change in fund balance	(36,671)	(128,194)	18,147	146,341
Fund Balance - Beginning of year	1,074,264	1,074,264	1,074,264	-
Fund Balance - End of year	\$ 1,037,593	\$ 946,070	\$ 1,092,411	\$ 146,341

City of Swartz Creek

Required Supplemental Information Budgetary Comparison Schedule - Major Street Fund Year Ended June 30, 2008

	Major Street			
	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenue				
Intergovernmental - State	\$ 262,000	\$ 262,000	\$ 258,269	\$ (3,731)
Charges for services	5,000	5,000	21,645	16,645
Interest	35,000	35,000	22,621	(12,379)
Other	2,000	2,000	2,125	125
Total revenue	304,000	304,000	304,660	660
Expenditures				
Current:				
Public works:				
Occupational safety	5,005	5,005	699	4,306
Construction	138,550	963,636	265,507	698,129
Routine maintenance- streets	53,410	42,053	42,053	-
Right of way	4,000	2,293	2,293	-
Traffic service	25,273	18,257	18,254	3
Winter maintenance	42,231	41,161	40,736	425
Administration	10,611	1,003	1,003	-
Total expenditures	279,080	1,073,408	370,545	702,863
Excess of revenue over (under) expenditures	24,920	(769,408)	(65,885)	703,523
Other Financing Uses				
Transfers out	(25,000)	(25,000)	(25,000)	-
Total other financing uses	(25,000)	(25,000)	(25,000)	-
Net change in fund balance	(80)	(794,408)	(90,885)	703,523
Fund Balance - Beginning of year	757,112	757,112	757,112	-
Fund Balance - End of year	\$ 757,032	\$ (37,296)	\$ 666,227	\$ 703,523

City of Swartz Creek

Required Supplemental Information Budgetary Comparison Schedule - Local Street Fund Year Ended June 30, 2008

	Local Street			
	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenue				
Intergovernmental - State	\$ 73,000	\$ 73,000	\$ 74,251	\$ 1,251
Interest	7,500	7,500	8,409	909
Other	85,500	85,500	16,875	(68,625)
Total revenue	166,000	166,000	99,535	(66,465)
Expenditures				
Current:				
Public works:				
Occupational safety	1,005	317	315	2
Construction	203,090	284,758	31,556	253,202
Right of way	2,000	3,929	2,228	1,701
Routine maintenance - Streets	1,500	1,500	-	1,500
Traffic service	5,879	2,109	2,103	6
Winter maintenance	44,057	53,216	53,212	4
Administration	7,391	8,803	8,314	489
Total expenditures	264,922	354,632	97,728	256,904
Excess of revenue over (under) expenditures	(98,922)	(188,632)	1,807	190,439
Other Financing Sources				
Transfers in	25,000	25,000	25,000	-
Total other financing sources	25,000	25,000	25,000	-
Net change in fund balance	(73,922)	(163,632)	26,807	190,439
Fund Balance - Beginning of year	215,137	215,137	215,137	-
Fund Balance - End of year	\$ 141,215	\$ 51,505	\$ 241,944	\$ 190,439

City of Swartz Creek

Required Supplemental Information Budgetary Comparison Schedule - Garbage Fund Year Ended June 30, 2008

	Garbage Collection			
	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenue				
Property taxes	\$ 381,254	\$ 381,254	\$ 379,430	\$ (1,824)
Other	-	-	366	366
Interest	28,000	28,000	27,093	(907)
Total revenue	409,254	409,254	406,889	(2,365)
Expenditures				
Current:				
Public works:				
Sanitation collection	321,677	360,226	423,713	(63,487)
Wood chipping	74,882	39,054	39,045	9
Total expenditures	396,559	399,280	462,758	(63,478)
Excess (deficiency) of revenue over expenditures	12,695	9,974	(55,869)	(65,843)
Other Financing Uses				
Transfers out	(13,750)	(13,750)	(13,750)	-
Total other financing uses	(13,750)	(13,750)	(13,750)	-
Net change in fund balance	(1,055)	(3,776)	(69,619)	(65,843)
Fund Balance - Beginning of year	630,818	630,818	630,818	-
Fund Balance - End of year	\$ 629,763	\$ 627,042	\$ 561,199	\$ (65,843)

City of Swartz Creek

Required Supplemental Information Schedule of Funding Progress June 30, 2008

The schedule of funding progress is as follows:

<u>Actuarial</u> <u>Valuation</u> <u>Date</u>	<u>Actuarial</u> <u>Value of</u> <u>Assets</u> <u>(a)</u>	<u>Actuarial</u> <u>Accrued</u> <u>Liability</u> <u>(AAL)</u> <u>(b)</u>	<u>Unfunded</u> <u>AAL (UAAL)</u> <u>(b-a)</u>	<u>Funded Ratio</u> <u>(Percent)</u> <u>(a/b)</u>	<u>Covered</u> <u>Payroll</u> <u>(c)</u>	<u>UAAL as a</u> <u>Percentage of</u> <u>Covered</u> <u>Payroll</u>
12/31/2005	\$6,813,379	\$7,576,107	\$762,728	90%	\$799,468	95%
12/31/2006	7,146,449	8,013,556	867,107	89	746,497	116
12/31/2007	7,493,467	8,092,795	599,328	93	711,356	84

The schedule of employer contributions is as follows:

<u>Fiscal Year Ended</u>	<u>Actuarial</u> <u>Valuation Date</u>	<u>Annual</u> <u>Required</u> <u>Contribution*</u>	<u>Percentage</u> <u>Contributed</u>
06/30/2006	12/31/2005	\$161,405	100.0
6/30/2007	12/31/2006	121,082	100.0
6/30/2008	12/31/2007	223,645	100.0

* The required contribution is expressed to the City as a percentage of payroll.

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of December 31, 2007, the latest actuarial valuation, follows:

Actuarial cost method	Entry age
Amortization method	Level percent
Amortization period (perpetual)	30-25 years
Asset valuation method	10-year smoothed market
Actuarial assumptions:	
Investment rate of return	8.0%
Projected salary increases*	0% - 8.4%
*Includes inflation at	4.5%
Cost of living adjustments	None

City of Swartz Creek

Notes to Required Supplemental Information Year Ended June 30, 2008

Budgetary Information - Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the General Fund and all Special Revenue Funds.

The budget document presents information by fund, function, department, and line items. The legal level of budgetary control adopted by the governing body is fund level

Excess of Expenditures Over Appropriations in Budgeted Funds - During the year, the City of Swartz Creek incurred expenditures that were in excess of the amounts budgeted, as follows:

	<u>Budget</u>	<u>Actual</u>
Garbage Collection Fund	\$399,280	\$462,758

Other Supplemental Information

City of Swartz Creek

Other Supplemental Information Combining Balance Sheet Nonmajor Governmental Funds June 30, 2008

	Special Revenue Funds		Debt Service Funds		Capital Project Funds		
	Drug Enforcement	Special Assessments	City Hall	Water Transmission	Capital Projects	Fire Capital Projects	Total
Assets							
Cash and cash equivalents	\$ 927	\$ 8,469	\$ 2,034	\$ 1,523	\$ 23,827	\$ 164,416	\$ 201,196
Accounts receivable	4,348	12,446	-	-	-	-	16,794
Total assets	\$ 5,275	\$ 20,915	\$ 2,034	\$ 1,523	\$ 23,827	\$ 164,416	\$ 217,990
Liabilities							
Accounts payable	\$ 97	\$ 50	\$ -	\$ -	\$ 9	\$ -	\$ 156
Accrued liabilities	2,023	-	-	-	-	-	2,023
Total liabilities	2,120	50	-	-	9	-	2,179
Fund Balances							
Unreserved	3,155	20,865	2,034	1,523	23,818	164,416	215,811
Total fund balances	3,155	20,865	2,034	1,523	23,818	164,416	215,811
Total liabilities and fund balances	\$ 5,275	\$ 20,915	\$ 2,034	\$ 1,523	\$ 23,827	\$ 164,416	\$ 217,990

City of Swartz Creek

Other Supplemental Information Combining Statement of Revenue, Expenditures, and Changes in Fund Balances - Nonmajor Governmental Funds Year Ended June 30, 2008

	Special Revenue Funds		Debt Service Funds		Capital Projects Funds		
	Drug Enforcement	Special Assessments	City Hall	Water Transmission	Capital Projects	Fire Capital Projects	Total
Revenue							
Property taxes	\$ -	\$ -	\$ -	\$ 28,358	\$ -	\$ -	\$ 28,358
Fines and forfeitures	48,645	-	-	-	-	-	48,645
Interest	404	-	1,134	635	1,394	5,665	9,232
Other	-	21,954	-	-	-	-	21,954
Total revenue	49,049	21,954	1,134	28,993	1,394	5,665	108,189
Expenditures							
General government	-	-	-	-	15,608	-	15,608
Public safety	106,230	15,423	-	-	-	-	121,653
Debt service:							
Principal	-	-	25,000	27,303	-	-	52,303
Interest and fees	-	-	44,593	1,289	-	-	45,882
Total expenditures	106,230	15,423	69,593	28,592	15,608	-	235,446
Excess of revenue over (under) expenditures	(57,181)	6,531	(68,459)	401	(14,214)	5,665	(127,257)
Other Financing Sources							
Transfers in	57,122	-	55,000	-	-	20,000	132,122
Net change in fund balances	(59)	6,531	(13,459)	401	(14,214)	25,665	4,865
Fund Balance - Beginning of year	3,214	14,334	15,493	1,122	38,032	138,751	210,946
Fund Balance - End of year	\$ 3,155	\$ 20,865	\$ 2,034	\$ 1,523	\$ 23,818	\$ 164,416	\$ 215,811

City of Swartz Creek

Other Supplemental Information Combining Statement of Assets and Liabilities Agency Funds June 30, 2008

	Trust & Agency	Current Tax Collection	Winter Tax	Tax in Lieu of Mari-Dan	Delinquent Personal Property Tax	Totals
Assets						
Cash and cash equivalents	\$ 45,205	\$ 768	\$ 1,293	\$ 22,886	\$ -	\$ 70,152
Delinquent taxes receivable	-	-	-	-	378,024	378,024
Total assets	\$ 45,205	\$ 768	\$ 1,293	\$ 22,886	\$ 378,024	\$ 448,176
Liabilities						
Due to other governmental units	\$ -	\$ 768	\$ 1,293	\$ 22,886	\$ 378,024	\$ 402,971
Deposits payable	45,205	-	-	-	-	45,205
Total liabilities	\$ 45,205	\$ 768	\$ 1,293	\$ 22,886	\$ 378,024	\$ 448,176

City of Swartz Creek

**Report to the City Council
June 30, 2008**



Plante & Moran, PLLC

Suite 1A
111 E. Court St.
Flint, MI 48502
Tel: 810.767.5350
Fax: 810.767.8150
plantemoran.com

To the City Council
City of Swartz Creek

We have recently completed our audit of the basic financial statements of City of Swartz Creek (the "City") for the year ended June 30, 2008. In addition to our audit report, we are providing the following letter of increased audit communications, required audit communication, summary of unrecorded possible adjustments, recommendations, and informational comments which impact the City:

	<u>Page</u>
Report on Internal Control	1-2
Results of the Audit	3-5
Summary of Unrecorded Possible Adjustments	6-7
Other Recommendations	8-9

We are grateful for the opportunity to be of service to the City of Swartz Creek. Should you have any questions regarding the comments in this report, please do not hesitate to call.

Plante & Moran, PLLC

December 10, 2008



Plante & Moran, PLLC
Suite 1A
111 E. Court St.
Flint, MI 48502
Tel: 810.767.5350
Fax: 810.767.8150
plantemoran.com

Report on Internal Control

December 10, 2008

To the City Council
City of Swartz Creek

Dear Council Members:

Beginning with last year's audit, national auditing standards call for auditors to communicate matters to the governing body that may be useful in its oversight of the City's financial management. Specifically, they require us to report internal control issues to the governing body that may be relatively minor, in order to allow it to evaluate their significance, and make any changes it may deem appropriate. In general, these are items that would have been discussed orally with management in the past. The purpose of these new standards are to allow the governing body an opportunity to discuss issues when they are relatively minor, rather than waiting until they become more serious problems. We hope this **Report on Internal Control** will be helpful to you, and we look forward to being able to discuss any questions you may have concerning these issues.

In planning and performing our audit of the financial statements of the City of Swartz Creek as of and for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies and/or material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiencies to be significant deficiencies in internal control.

To the City Council
City of Swartz Creek

Accounts Payable

While auditing accounts payable we discovered a significant unrecorded liability to the Genesee County Drain Commissioner. We suggested and management posted an adjusting entry to record the liability.

Infrastructure Assets

During the year there were infrastructure improvements (roads) in the City. A portion of the improvements were funded by the State of Michigan (MDOT); however, only the City's expenditure portion was added to the capital asset listing. Given the City owns the roads the portion contributed by the State of Michigan should also be added to the capital asset schedule and recognized as a capital grant contribution on the Statement of Activities.

Budgeted Deficit

During the year the City adopted a budget for the Major Street Fund that budgeted for a deficit fund balance. We suggest that management review the budget prior to adoption to ensure that a deficit would not result.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We believe that the following deficiencies constitute material weaknesses.

Prior Period Restatement

A restatement to the prior year financial statements was made to reclass the 2006 sewer extension debt and related capital assets from the governmental activities to the sewer fund. The long-term debt is directly related to and expected to be paid from the Sewer Fund and thus should be recorded in the Sewer Fund.

This communication is intended solely for the information and use of management, the council, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Plante & Moran, PLLC

A handwritten signature in black ink, appearing to read "Peggy Haw Jury".

Peggy Haw Jury, CPA, CFE

Results of the Audit

December 10, 2008

To the City Council
City of Swartz Creek

We have audited the financial statements of City of Swartz Creek for the year ended June 30, 2008, and have issued our report thereon dated December 10, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated June 25, 2008, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. We are responsible for planning and performing the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. As part of our audit, we considered the internal control of the City of Swartz Creek. Our consideration of internal control was solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters and our audit of the financial statements does not relieve you or management of your responsibilities.

We also are obligated to communicate certain matters related to our audit to those responsible for the governance of City of Swartz Creek, including certain instances of error or fraud and significant deficiencies in internal control that we identify during our audit. In certain situations, *Government Auditing Standards* requires disclosure of illegal acts to applicable government agencies. If such illegal acts were detected during our audit, we would be required to make disclosures regarding these acts to applicable government agencies. No such disclosures were required.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on September 8, 2008.

To the City Council
City of Swartz Creek

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by City of Swartz Creek are described in Note I to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2008.

We noted no transactions entered into by the organization during the year for which there is a lack of authoritative guidance or consensus

There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was capital asset useful lives.

Management's estimate of the lives is based on the estimated usefulness of the assets. We evaluated the key factors and assumptions used to develop the useful lives in determining that it is reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. The attached schedule summarizes uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

The following material misstatements detected as a result of audit procedures were corrected by management: the recording of an accounts payable to Genesee County Waste and Water and to capitalization of a portion of road construction funded through Michigan Department of Transportation.

To the City Council
City of Swartz Creek

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated December 10, 2008.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the organization's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

In the normal course of our professional association with the organization we generally discuss a variety of matters, including the application of accounting principles and auditing standards, business conditions affecting the organization, and business plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as the organization's auditors.

Other Information in Documents Containing Audited Financial Statements

This information is intended solely for the use of City Council and management of City of Swartz Creek and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Plante & Moran, PLLC

A handwritten signature in black ink, appearing to read "Peggy Haw Jury", written in a cursive style.

Peggy Jury, CPA, CFE

To the City Council
City of Swartz Creek

Client: **City of Swartz Creek**
Opinion Unit: **Major Street Fund (Major Governmental Fund)**
Y/E: **6/30/2008**

SUMMARY OF UNRECORDED POSSIBLE ADJUSTMENTS

The pretax effect of misstatements and classification errors identified would be to Increase (Decrease) the reported amounts in the financial statement categories identified below:

Ref. #	Description of Misstatement	Current Assets	Long-Term Assets	Current Liabilities	Long-Term Liabilities	Equity	Revenue	Expenses	Pretax Income
KNOWN MISSTATEMENTS:									
AI	Deferral of receivables from Woodside Builder receivable invoice #6003991 from 10/30/06 not received within 60 days of year end.			\$ 14,544			\$ (14,544)		\$ (14,544)

To the City Council
City of Swartz Creek

Client: **City of Swartz Creek**
Opinion Unit: **General Fund (Major Governmental Fund)**
Y/E: **6/30/2008**

SUMMARY OF UNRECORDED POSSIBLE ADJUSTMENTS

The pretax effect of misstatements and classification errors identified would be to Increase (Decrease) the reported amounts in the financial statement categories identified below:

Ref. #	Description of Misstatement	Current Assets	Long-Term Assets	Current Liabilities	Long-Term Liabilities	Equity	Revenue	Expenses	Pretax Income
KNOWN MISSTATEMENTS:									
AI	Deferral of receivables from Marathon Gas Station receivable from 2001 and 2003 invoices not received within 60 days of year end.			\$ 9,352			\$ (9,352)		\$ (9,352)

Other Recommendations

Other Recommendations

Outstanding Checks

Included in the bank account reconciliation at year end was approximately \$12,000 in outstanding checks originally issued between 1997 and 2005. We recommend that the validity of the outstanding checks be investigated. Valid outstanding checks should be escheated to the State of Michigan.